

*Remarks delivered
By Martin Vroegh*

**House Energy Policy Committee
April 13, 2015
HB 4298**

**Cortney K. Schmidt, Environmental Manager
St. Marys Cement Company
Charlevoix, Michigan**

Good morning Mr. Chairman, my name is Cortney Schmidt, and I am the environmental manager for the St. Marys Cement Company's Charlevoix cement manufacturing plant. With me is Martin Vroegh, Votorantim Cementos North America's environmental manager, and Kim Molitor, President of Wolverine Power Marketing Cooperative.

St. Marys Cement is a wholly owned subsidiary of Votorantim Cementos North America (VCNA). VCNA includes a network of 6 cement/clinker plants across the Great Lakes and Florida. This includes cement, ready mix concrete, aggregates, and transportation businesses. The Charlevoix, Michigan plant was established in 1965 by Medusa. Subsequently, the Charlevoix plant was purchased and operated by Southdown and Cemex, before being purchased by VCNA in 2005.

Currently, the Charlevoix plant has annual production capacity of 1.4 million tons of cement and employs 128 full-time employees. Annual payroll for the plant is approximately \$13 million. VCNA has invested approximately \$62 million in capital improvements in the plant since 2005, with local taxes paid of over \$10 million during that timeframe. We are the largest for-profit employer and taxpayer in Charlevoix County. In addition, our average wage is nearly \$50/hour for our skilled employees.

VCNA also is active in the community as we give to various local causes and charities. Local gifts and endowments totaling a half a million dollars, which includes a recent commitment of \$250,000 made to the Charlevoix Area Hospital Foundation towards its Built for Caring Campaign that will enlarge and renovate the Surgical Suite and Laboratory in an effort to better meet the evolving health care needs of its patients.

Thank you for the opportunity to speak on HB 4298. HB 4298 seeks to eliminate electric choice in the state of Michigan. In 2000, Michigan enacted the Customer Choice and Electricity Reliability Act.. The law provided all retail customers of electric power with the choice of electric suppliers; the Charlevoix plant entered the electric choice program in February 2002. Under the law the Michigan Public Service Commission issued orders establishing the rates, terms, and conditions of service that allowed all retail customers of an electric utility or provider to choose an alternative

supplier. In 2008 the law was amended to provide not more than 10% of an electric utility's average weather-adjusted retail sales for the preceding calendar year may take service from an alternative electric supplier at any time. The genesis of the 2008 legislation was related to utilities needing to secure a 90% market share to receive loans necessary to build new generating capacity. It is important to note that the 10% cap resulted in no new generating capacity built in the state of Michigan. HB 4298 seeks to eliminate free market options for electricity consumers in the state of Michigan.

The manufacture of cement is an energy-intensive process. Cement manufacturing requires quarrying, crushing, milling, burning, and grinding processes to produce the product we sell. Depending on technology and the plant setting, it requires anywhere from 100-150 kilowatt-hours per short ton to produce cement. The Charlevoix plant historically is in the 140 kilowatt-hours per short ton range. With annual production rates of 1.4 million tons, power consumption at the plant is around 200,000,000 kilowatt-hours on an annual basis. In 2015, power costs will represent almost 20% of our plant's annual operating budget. The Charlevoix plant has participated in the electric choice program since 2002. Since VCNA purchased the Charlevoix plant in 2005, the company has benefitted to the tune of almost \$13 million when comparing our actual power costs to what they would have been outside of the choice program, and over \$17.5 million for the Charlevoix plant since 2002.

With the Great Recession, the cement industry saw rapid declines in domestic cement consumption and the Charlevoix plant was impacted as well. Production was reduced by nearly 40% and we were forced to implement layoffs. As the cement market recovers, competition for pricing in the market place is becoming more difficult. With power being such a large part of a plant's operating budget, electrical pricing is a key component in maintaining a plant's ability to be competitive in the market

VCNA is on the cusp of making a decision to significantly invest in the future of its Charlevoix plant. Business cases have been prepared for the Charlevoix facility, and facilities in Dixon, Illinois and Bowmanville, Ontario, as the company seeks to invest capital to increase total production capacity to meet anticipated market demands. We have announced a plan to invest upwards of \$150 million in the Charlevoix plant, contingent upon the Votorantim Board of Directors approving the Charlevoix business case over potential investments in Illinois or Canada. The Board decision is expected by the end of April. This investment would have a significant economic impact in the Charlevoix area as hotels, restaurants and other businesses would benefit from additional workers, consultants, and other skilled tradespersons.

The Charlevoix plant has received support from the local government bodies including the Charlevoix Township and Charlevoix County boards in its application for Brownfield Incentives. Our community is excited about the economic impact projected for a \$150 million capital investment in our Charlevoix plant. The investment, if approved, will ensure the continued presence of the plant in Charlevoix for the next 30+ years and 128 good paying jobs for residents in the Charlevoix area.

Changing the power cost structure for the Charlevoix plant can only harm our plant's case when it is taken to the Board for approval.

I urge you to strongly consider the impact of eliminating electric choice in our state. Free markets are always preferred to monopolies. Total regulatory control seldom fixes issues. The large utility suppliers have enjoyed the benefit of a guaranteed 90% market share since 2008, with some expectation of building new capacity. This has not happened. Giving them 100% of the market share will only hurt consumers like our plant and will have an impact on our ability to compete in the market place.

Thank you and I am pleased to take any questions.